LEASE ANALYSIS LANDLORD INDUSTRIAL CANADIAN EXAMPLE

INTRODUCTION
This Lease Analysis example analyses an industrial lease from a Landlords perspective.

The landlord is considering a proposal from Apex Manufacturing to rent;

> Unit No. 4 Rentable Area: 6,000 Sq. Ft

This practice example consists of two Sections;
1. The input information for the project
2. The instructions for entering the project data

PROJECT INFO. Folder
Property Name: Lakewood Estates
Description: Industrial Lease Analysis Landlord Perspective
Tenant: Apex Manufacturing
Analysis Period: 10 Years
Starting Date: Year 1 Jan

LANDLORD Folder
Landlord's Marginal Tax Rate: 42.00%
Discount Rate: Before Tax 13.00%

LEASEHOLD IMPROVEMENTS Folder

CCA Claim Option: Full CCA Claim

Description: Leasehold Improvements
Amount: $12,000
Year 1 Jan
CCA Class: Building
CCA Rate: 4.00%
First Year: 50.00%
Claim CCA in last year: Yes

GENERAL EXPENSES
General Expenses are only used if the tenant is leasing several spaces in the building and there are expenses common to the spaces such as parking, security costs etc.

In this case the tenant only occupies one space so there isn't any General Expenses to enter.

GENERAL REVENUE
General Revenues are only used if the tenant is leasing several spaces in the building and there are revenues common to the spaces such as sign rental and parking. etc.

In this example the tenant only occupies one space so there are no General Revenues..

RENT REVENUE AND EXPENSES Folders
Consists of three folders
1. **Tenancy Information Folder** Used to enter information on the tenant
2. **Revenue Folder** Used to enter the rent, parking etc paid by the tenant to the landlord
3. **Rental Expenses Folder** Used to enter the costs incurred by the landlord related to the space

TENANCY INFORMATION Folder
Suite/Unit No: No. 4
Tenant Name: Apex Manufacturing
Rentable Area Sq. Ft: 6,000

REVENUE Folder
Revenue is entered in the Rental Revenue & Expenses, Revenue sub-folder as follows;

Unit No. 4 Industrial space. Tenant's Rentable Area: 6,000 Sq. Ft

Base Rent
$14.00 per Unit of Tenant's Rentable Area per Yr paid monthly. Two terms of 5 years. Increase for the second term based on 3.00 % compounding for five years

Free Rent.
First three months. 100% of Base Rent

Recoverable Expenses
$4.00 per Unit of Tenant's Rentable Area per Yr paid monthly for 12 months then increasing at 3.00% compounding per year

Parking
12 spaces at $20 per month for 12 months then increasing at 4.00% compounding until the end of the lease. The parking is subject to a **Rent Cap** of $300 per month for the full 10 years. This means that the maximum that will be paid by the tenant for parking per month is $300

RENTAL EXPENSES
Expenses paid by the Landlord
 $5.00 per Unit of Tenant's Rentable Area per Yr then increasing at 3.00% compounding per year.

Leasing Fee.
 Year 1 Jan $12,000

VACANCY Folder
This analysis assumes there are no vacancies

FINANCING Folder

The Financing folder allows you to enter two types of financing;

Mortgage (Borrowing)
 Money borrowed by the landlord to fund tenant and other improvements associated with the space being rented

   Description: Leasehold Improvement Loan
   Commencing: Year 1 January
   Type: Standard Mortgage
   Amount: $12,000
   Time Period: 10 years
   Amortization: 10 years
   Nominal Interest Rate: 8.00%
   Compounding Frequency: Semi-annually

Tenant Loans
The landlord lends money to the tenant to fund their leasehold improvements and moving costs and the tenant repays the loan principle and interest every month.

Description: Tenant Loan
Commencing: Year 1 January
Type: Standard Mortgage
Amount: $8,000
Time Period: 5 years
Amortization: 5 years
Nominal Interest Rate: 10.00%
Compounding Frequency: Monthly

TERMINATION Folder
Cost incurred by the landlord at the end of the lease for cleaning up the space in preparation for leasing to a new tenant.

Cleanup and Restoration Costs $7,500

Value of leasehold improvements on termination is zero.

INSTRUCTIONS FOR ENTERING THE PROJECT INTO INVESTOR PRO

Getting started
The first step is to open the Investor Pro Template "Lease Analysis Landlord Industrial" as follows:

1. Open Investor Pro.
2. Select the New Project Folder then select the Investit Template folder
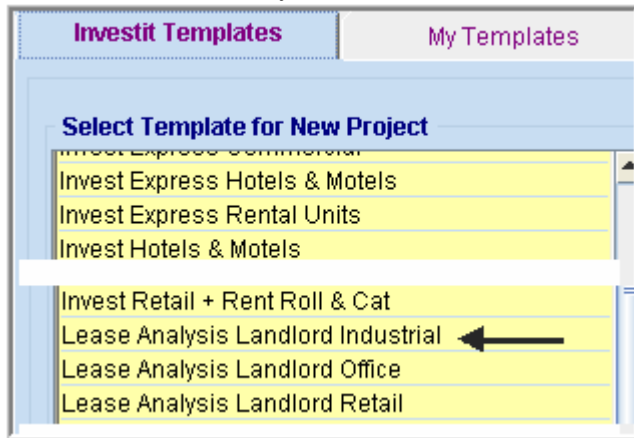
3. Select and open the Investit template "Lease Analysis Landlord Industrial" The analysis period dialog will open at this point.
4. Enter 10 years and click OK

Entering the project data and information

PROJECT INFO. Folder
1. Enter the Property Name: Lakewood Estates
2. Enter Description: Industrial Lease Analysis Landlord

LANDLORD Folder
1. Enter the Investor's Marginal Tax Rate: 42.00%
2. Enter the Discount Rate Before Tax: 13.00%

   Notes:
   The Discount Rate is used to calculate the Net Present Value and Net Effective Rent
   The program automatically calculates the Discount Rate After Tax

LEASEHOLD IMPROVEMENTS Folder
First Row

1. Enter the Amount: $12,000

The Leasehold Improvement folder should look like this;

GENERAL EXPENSES

General Expenses are only used if the tenant is leasing several spaces in the building and there are expenses common to the spaces such as parking, security costs etc.

In this case the tenant only occupies one space so there isn't any General Expenses to enter.

GENERAL REVENUE

General revenue is only used if the tenant is leasing several spaces in the build and there is revenue that is common to both spaces such as Sign Rental and Parking.

In this example the tenant only occupies one space so there are no General Revenues to enter.

2. Click on the Rental Revenue and Expenses folder

RENTAL REVENUE AND EXPENSES Folder

Tenancy Information Sub-Folder
This folder is a sub-folder within the RENTAL REVENUE & EXPENSES Folder and is used to set up the tenants and information on the tenants

First row enter the following information on the industrial space;

1. Suite/Unit No: 4
2. Tenant's Name: Apex Manufacturing
3. Tenant's Rentable Area: 6,000 Sq. Ft

The Tenancy Information sub-folder should look like this;

Tenancy Information			Revenue			Rental
Suite / Unit No.	Floor No.	Tenant Name	Rentable Area Sq. Ft	Pro Rata Expense Share	Start Date	Expiration Date
4		Apex Manufacturing	6,000	0.00%		

Note: For each tenant you can enter information on the tenancy and lease arrangements by completing the Tenancy Information grid.

| Expiration Date	Lease Term	Renewal Options	Estimated Renewal Rate

The only information that needs to be entered is the Tenant Name and Rentable Area
4. Click on the Revenue sub-folder

Revenue Sub-Folder

The Revenue folder is used to enter the Tenant's rent and other payments to the Landlord.

You can use the following buttons to enter Free Rent, Rent Caps and Recoverable Expense Caps and Stops.

Apply Free Rent	Apply Cap or Stop
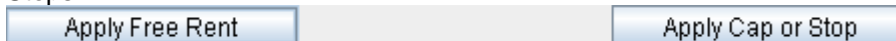
The [Projection Wizard] button provides access to the Projection Wizard, which allows you to enter and project the revenues.

Follow these steps to enter and project the revenues;

The Revenue sub-folder should look like this;

4 Apex Manufacturing		Rentable Area		6,000 Sq. Ft

Revenues

Description	Entry Choice	Qty	Year 1 Jan...
Base Rent	$ per Unit of Tenant's Rentable Area per Yr	6,000	$ 0.00
Free Rent	% of Rent	—	0.00%
Recoverable Expenses	$ per Unit of Tenant's Rentable Area per Yr	6,000	$ 0.00
Parking	$ per Space per Mo	0	$ 0.00

The above rows appear automatically for the first tenant

1. Select row with Description 'Parking'
2. Click on the [Apply Cap or Stop] button to access the Rent Cap & Stop dialog and select "Rent Cap" and click Ok.

Caps & Stops

Select

- ⦿ Rent Cap
- ○ Recoverable Expense Cap (Tenant pays expenses up to the Cap)
- ○ Recoverable Expense Stop (Landlord pays expenses up to the Stop)

[OK] [Cancel] [Help]

The Revenue sub-folder should look like this;

4 Apex Manufacturing		Rentable Area		6,000 Sq. Ft

Revenues

Description	Entry Choice	Qty	Year 1 Jan...
Base Rent	$ per Unit of Tenant's Rentable Area per Yr	6,000	$ 0.00
Free Rent	% of Rent	—	0.00%
Recoverable Expenses	$ per Unit of Tenant's Rentable Area per Yr	6,000	$ 0.00
Parking	$ per Space per Mo	0	$ 0.00
Rent Cap	Amount	—	$ 0

The next step is to enter and project the Revenues using [Projection Wizard]

Revenue

Revenue is entered in the Revenue sub folder as follows;

Unit No. 4 Industrial space. Tenant's Rentable Area: 6,000 Sq. Ft

Base Rent
$14.00 per Unit of Tenant's Rentable Area per Yr paid monthly. Two terms of 5 years. Increase for the second term base on 3.00 % compounding for five years

Free Rent
First three months. 100% of Base Rent

Recoverable Expenses
$4.00 per Unit of Tenant's Rentable Area per Yr paid monthly for 12 months then increasing at 3.00% compounding per year

Parking
12 spaces at $20 per month for 12 months then increasing at 4.00% compounding until the end of the lease. The parking is subject to a **Rent Cap** of $300 per month for the next 10 years. This means that the maximum that will be paid by the tenant for parking per month is $300

Following are the steps for entering the for tenant Unit No. 4 Apex Manufacturing

1. Select row 1: 'Base Rent'

2. Click on [Projection Wizard] which displays the Projection Wizard

Entry Information

Unit/Suit No.:   4 Apex Manufacturing

Description: Base Rent

Entry Choice: $ per Unit of Tenant's Rentable Area per Yr

Projections

Paid	Project Entry Using...	Entry	Start Date		Time Period			Increase	Cont. Proj.
			Year	Month	To End	Yrs	Mos		
Monthly	Constant (Fill Right)	$ 0.00	Year 1	Jan	☐	1	0		☐

3. **Project Entry Using.. column**: select "Stepped Proj. (Lease)"

Project Entry Using...
Constant (Fill Right)
Constant (Fill Right)
Uniform % Increase
Uniform $ Increase
Stepped Proj. (Lease) ←
Enter Yr. by the Month
Single Entry. No Proj.
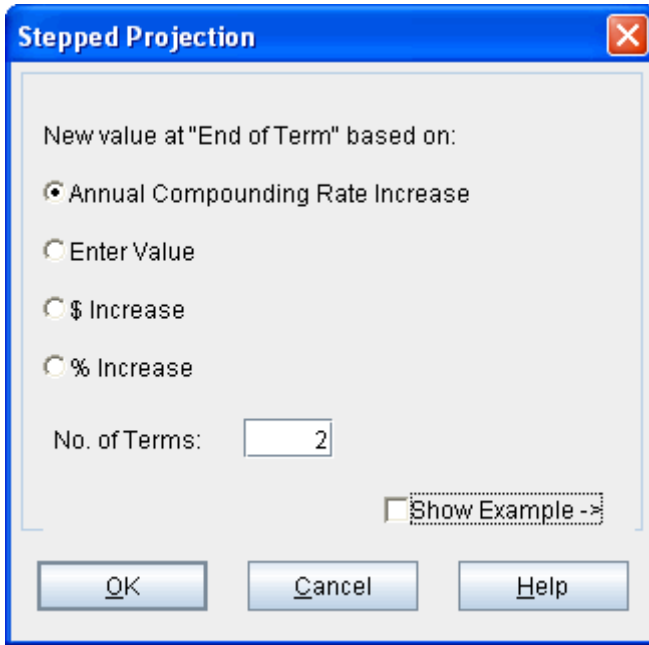
4. Set the No. of Terms to 2, which is the default entry and click OK to return to the Projection wizard
5. **Entry column:** Enter the lease rate $14.00
6. **Time Period column:** Set Term 1 (the first row) to 5 years and Term 2 (second row) to 5 years (or check the "To End" box).
7. **Increase column:** Enter the Annual Compounding Rate at 3.00%

To view your entries, click on the [Projection Description] button, which describes the entries and projections**.**

Your projection description should look like this;

No. 4 Apex Manufacturing
Base Rent
Entry Choice: $ per Unit of Tenant's Rentable Area per Year
Quantity: 6,000

Year 1 Jan	Stepped Projection (Lease)
	Term 1: $14.00 per Unit of Tenant's Rentable Area per Year paid monthly for 5 years
	Term 2: Increased by 3.00% compounding per year to $16.23 per Unit of Tenant's Rentable Area per Year paid monthly for 5 years

Press OK to return to the Projection Wizard

The Projection Wizard should look like this;

Entry Information

Unit/Suit No.: No. 4 Apex Manufacturing

Description: Base Rent

Entry Choice: $ per Unit of Tenant's Rentable Area per Yr

Projections

Paid	Project Entry Using...	Entry	Term	Start Date		Time Period			Increase
				Year	Month	To End	Yrs	Mos	
Monthly	Stepped Proj. (Lease)	$14.00	1	Year 1	Jan		5	0	3.00%
			2	Year 6	Jan	☑	5	0	

Press OK to return to the Revenue sub-folder

Entering the Free Rent. 100% of the Base Rent for the for the first three months
  1. Enter 100% in Year 1 Jan, Feb and March on the entry grid

Revenues

Description	Entry Choice	Qty	Year 1 Jan...	Year 1 Feb...	Year 1 Mar...	Year 1 Apr...
Base Rent	$ per Unit of Tenant's Rentable Area per Yr	6,000	$14.00	$14.00	$14.00	$14.00
Free Rent	% of Rent	—	100.00%	100.00%	100.00%	0.00%

Entering the Recoverable Expenses
  1. Select row with Description "Recoverable Expenses"

  2. Click on [Projection Wizard] which displays the Projection Wizard

  In the **Projection Wizard**

  3. **Paid column:** Select "Monthly for 12 Months"
  4. **Project Entry Using column**: Select "Annual Compounding"
  5. **Entry column:** Enter $4.00
  6. **Time Period column:** Check the "To End" box.
  7. **Increase column:** Enter the compounding rate of 3.00%

To view your entries, click on the [Projection Description] button, which describes the entries and projections**.**

Your projection description should look like this;

No. 4 Apex Manufacturing

Recoverable Expenses

Entry Choice: $ per Unit of Tenant's Rentable Area per Year

Quantity: 6,000

Year 1 Jan $4.00 per Unit of Tenant's Rentable Area per Year paid monthly for 12 months
                    Compounding at 3.00% per year for next 9 years

Press OK to return to the Projection Wizard

Your entries in the projection wizard should look like this:

Press OK to return to the Revenue sub-folder.

Entering Parking

1. Select the row with the Description: 'Parking'
2. Enter Qty: 12
3. Click on the [Projection Wizard] button

4. In the **Projection Wizard** make the following entries;

5. **Paid column:** Select "Monthly for 12 Months"
6. **Project Entry Using column:** Select "Annual Compounding"
7. **Entry Column:** Enter $20.00
8. **Time Period column:** Check the "To End" box. This allows the projection to continue until the end of the 10 year Analysis Period
9. **Increase column:** Enter the Compounding Rate of 4.00%

To view your entries, click on the [Projection Description] button, which describes the entries and projections**.**

Your projection description should look like this;

Click OK to return to the projection wizard

Your entries in the Projection Wizard should look like this;

Press OK to return to Revenue sub folder

Entering the Rent Cap
1. Select the row with the entry choice: Rec. Exp. Cap
2. Click on [Projection Wizard] which displays the Projection Wizard
3. **Amount** column: Enter $300
4. Check the "To End" box

Your entries in the projection wizard should look like this;

Press OK to return to the Revenue sub-folder

Upon completion your Revenue sub-folder should look like this;

10. Click on the Rental Expenses sub-folder

Rental Expenses Subfolder
Rental Expenses are expenses paid by the landlord which are allocated to the space such the share of property taxes, insurance, common area maintenance, property management etc.

The Rental Expenses sub-folder should look like this;

Tenancy Information	Revenue

| 4 Apex Manufacturing | Rentable Area | 6,000 | Sq. Ft |

Expenses

Description	Entry Choice	Qty	Year 1 Jan...
Expenses paid by Landlord	$ per Unit of Tenant's Rentable Area per Yr	6,000	$ 0.00
Leasing Fee	Amount	—	$ 0

For this tenant the default Entry Choices and Descriptions are correct

RENTAL EXPENSES

Expenses Paid by Landlord $5.00 per Tenant's Rentable Area then increasing at 3.00% compounding per year.

Leasing Fee. Year 1 Jan $12,000

Following are the steps for entering the above information for tenant Unit 4 Apex Manufacturing
1. Select row 1: 'Expenses paid by Landlord'
2. Click on [Projection Wizard] which displays the Projection Wizard
3. **Paid column**: Select "Monthly for 12 Months"
4. **Project Entry Using… column:** Select "Annual Compounding"
5. **Entry column:** $5.00
6. **Time Period column:** Select the "To End" box
7. **Increase column**: Enter the Annual Compounding Rate at 3.00%

Your entries in the Projection Wizard should look like this;

Entry Information

Unit/Suit No.:   No. 4 Apex Manufacturing

Description: Expenses paid by Landlord

Entry Choice: $ per Unit of Tenant's Rentable Area per Yr

Projections

| | | | Start Date | | Time Period | | | |
Paid	Project Entry Using...	Entry	Year	Month	To End	Yrs	Mos	Increase
Monthly for 12 Months	Annual Compounding	$5.00	Year 1	Jan	✔	10	0	3.00%

Click on the OK button to return to the Rental Expenses sub-folder

Entering the Leasing Fee
1. Select row 2: 'Leasing Fee'
2. Enter $12,000 into grid for Year 1 Jan

The screen should look like this;

Tenancy Information		Revenue

No. 4 Apex Manufacturing		Rentable Area	6,000 Sq. Ft

Expenses

Description	Entry Choice	Qty	Year 1 Jan...
Expenses paid by Landlord	$ per Unit of Tenant's Rentable Area per Yr	6,000	$ 5.00
Leasing Fee	Amount	—	$ 12,000

3. Click on the Financing tab

VACANCY Folder
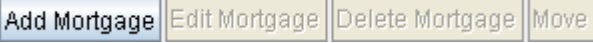This analysis assumes no vacancies

FINANCING Folder

Mortgage (Borrowing)
Money borrowed by the landlord to fund tenant and other improvements associated with the space being rented

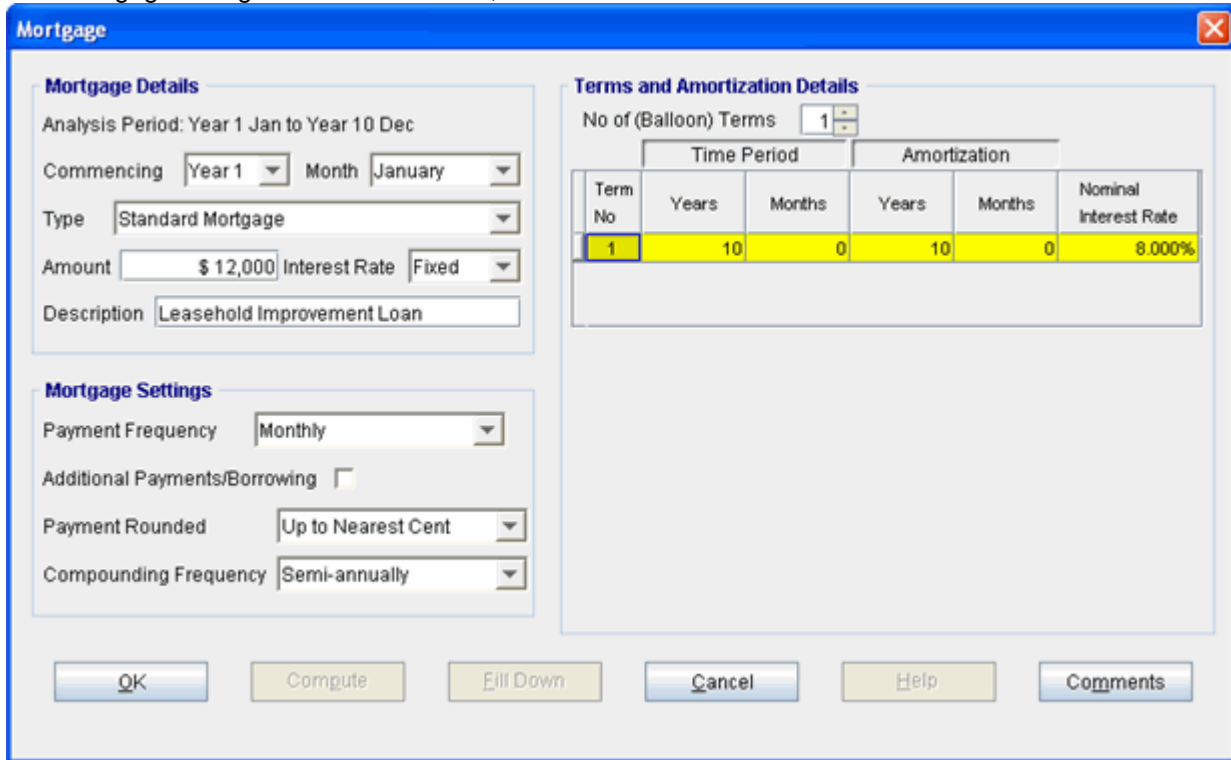   Description: Leasehold Improvement Loan
    Year 1 January, $12,000, 10 year amortization, Interest Rate 8.00% Type "Standard Mortgage"

Setting up a mortgage
1. Click on the Financing folder tab
2. Click on the Add Mortgage button

    Add Mortgage | Edit Mortgage | Delete Mortgage | Move

3. Amount box: $12,000
4. Description box: "Leasehold Improvement Loan"
5. Time Period box: 10 Years
6. Amortization box: 10 Years
7. Nominal Interest Rate box: 8.00%

The mortgage dialog should look like this;

8. Press the **Compute** button
9. Press OK to return to the Financing folder

Your Financing folder should appear like this;

Tenant Loans

The landlord lends money to the tenant for improvements and moving costs and the tenant repays the loan and interest every month

Description: Tenant loan
Year 1 January, $8,000, Time Period 5 years, Amortization 5 years, Interest Rate 10.00%
Type: Standard Mortgage

Setting up a Tenant Loan
1. Press The Add Loan button near the bottom of the Financing Folder
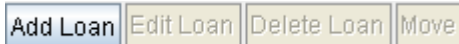
2. Amount box: $8,000
3. Description box: "Tenant Loan"
4. Time Period box: 5 Years
5. Amortization box: 5 Years
6. Nominal Interest Rate Box: 8.00%

The Mortgage dialog should look like this;

7. Press the [Compute] button
8. Press the OK button to return to the Financing folder

Upon completion the Financing folder should look like this;

4. Click on the Termination Tab

TERMINATION EXPENSES
Cost incurred by the tenant at the end of the lease for cleaning up the space.

Cleanup and restoration costs $7,500

The Termination Expenses should appear like this;

Entering the Termination Costs
1. Expense column: $7,500

The Termination Expenses should now appear as;

SAVE YOUR PROJECT

CHECKING YOUR ENTRIES
You can compare your project against the Investit example " Lease Analysis Landlord Indust"